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AZ CORP COMMISSION  
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TO: Docket Control

FROM: Ernest G. Johnson *EGJ*  
Director  
Utilities Division

DATE: February 20, 2004

RE: ARIZONA WATER COMPANY, INC. - APPLICATION FOR AN  
EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY  
TO PROVIDE WATER SERVICE IN PINAL COUNTY, ARIZONA (DOCKET  
NO. W-01445A-02-0909)

Attached is the Staff Report for the above referenced application. Staff is recommending approval of the application.

EGJ:JEF:hml

Originator: Jim Fisher

Arizona Corporation Commission  
DOCKETED

FEB 20 2004

DOCKETED BY	<i>CR</i>
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Docket No. W-01445A-02-0909

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ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-02-0909

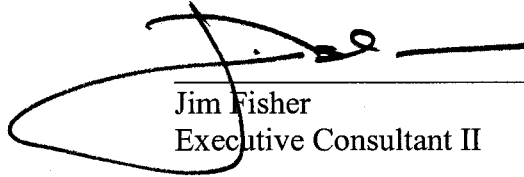
APPLICATION FOR AN EXTENSION OF ITS  
CERTIFICATE OF CONVENIENCE AND NECESSITY  
TO PROVIDE WATER SERVICE IN PINAL COUNTY, ARIZONA

FEBRUARY 2004

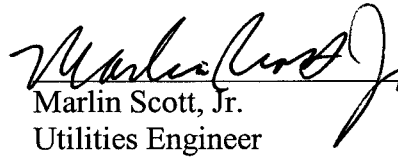
## STAFF ACKNOWLEDGEMENT

The Staff Report for Arizona Water Company, Inc. (Docket No. W-01445A-02-0909) was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis.

Contributing Staff:



Jim Fisher  
Executive Consultant II



Marlin Scott, Jr.  
Utilities Engineer

**EXECUTIVE SUMMARY  
ARIZONA WATER COMPANY  
DOCKET NO. W-01445A-02-0909**

On December 16, 2002, Arizona Water Company ("Arizona Water" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to include additional properties in Pinal County, Arizona. On January 17, 2003, Utilities Division Staff ("Staff") informed the Company that the application was insufficient for administrative purposes. In October 2003 and January 2004, Arizona Water provided Staff with additional documentation to support the application. On January 8, 2004, Staff informed the Company that the application was sufficient for administrative purposes.

By this application, Arizona Water is seeking to extend its CC&N to include an additional one-quarter (1/4) square mile parcel located within and surrounded by, the existing CC&N. The Company has been requested by Arroyo Vista 160 LLC, the owner of the property, to serve a proposed development in the extension area. Arizona Water intends to supply the development with water from the Casa Grande system. The proposed development is expected to provide 250 additional connections within the next 5 years. Arizona Water will finance the required transmission and distribution facilities primarily with Advances in Aid of Construction.

Arizona Water has been authorized the necessary City of Casa Grande franchise which includes the proposed extension area. However, on January 27, 2003, the Company was informed by the City of Casa Grande that the franchise agreement had expired. The City further informed the Company that Arizona Water is allowed to operate within the City's rights-of-way, subject to a city inspection fee equal to 3 percent of the construction cost of the plant inspected.

Staff recommends that the Commission approve the Arizona Water Company application for an extension of its Certificate of Convenience and Necessity in a portion of Pinal County to provide water service, subject to compliance with the following conditions:

1. To require Arizona Water Company to charge its existing rates and charges in the proposed extension area.
2. To require Arizona Water Company to file a copy of the developers' Certificate of Assured Water Supply related to the proposed extension area within 365 days of the effective date of any decision in this matter.
3. To require Arizona Water Company to file the main extension agreement associated with the proposed extension area within 365 days of the effective date of any decision in this matter.
4. To require Arizona Water provide a copy of the Arizona Department of Environmental Quality's Certificate of Approval to Construct within 365 days of any decision in the matter.

Staff further recommends that the Commission's Decision granting this Extension of its Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet condition numbers 2, 3, and 4 above within the time specified.

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## **Introduction**

On December 16, 2002, Arizona Water Company ("Arizona Water" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to include additional properties in Pinal County, Arizona. On January 17, 2003 Utilities Division Staff ("Staff") informed the Company that the application was insufficient for administrative purposes.

In October 2003 and January 2004, Arizona Water provided Staff with additional documentation to support the application. On January 8, 2004, Staff informed the Company that the application was sufficient for administrative purposes.

## **Background**

Arizona Water is an Arizona corporation, authorized by the ACC to provide water service within portions of Gila, Navajo, Cochise, Maricopa, Pima, Yavapai, Coconino and Pinal counties, Arizona. The ACC initially authorized Arizona Water a CC&N in 1955. The Company currently serves approximately 65,000 customers.

By this application, Arizona Water is seeking to extend and interconnect its current 113 square mile Casa Grande CC&N to include an additional one-quarter (1/4) square mile parcel located within and surrounded by, the existing CC&N.

## **The Extension Request**

Arizona Water is requesting the Commission allow the Company to extend its service territory to include one-quarter (1/4) section of the northeast quarter of Section 4, Township 6 South, Range 6 East of the Gila and Salt River Base and Meridian. The requested property is completely surrounded by the existing Arizona Water CC&N.

The Company has been requested by Arroyo Vista 160 LLC, the owner of the property, to serve a proposed development in the extension area. Arizona Water intends to supply the development with water from the Casa Grande system. The proposed development is expected to provide 250 additional connections within the next 5 years.

## **Finance of Facilities**

Arizona Water will finance the required transmission and distribution facilities primarily with Advances in Aid of Construction ("AIAC"). AIAC are often in the form of Main Extension Agreements ("MXA"). MXAs generally require the developer to design, construct and install, (or cause to be), all facilities to provide adequate service to the development. The developer is required to pay all costs of constructing the required facilities necessary to serve the development. Upon acceptance of the facilities by the utility, the developer will convey the water



facilities by way of a warranty deed. The utility will often refund ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

The Company has informed Staff that service will be extended by installing 8-inch and 6-inch distribution lines, fire hydrants, and service connections. The projected costs are \$694,908. A MXA has not been finalized between the parties. Once the parties have finalized a MXA Staff recommends the agreement be forwarded to Staff for review consistent with Arizona Administrative Code R14-2-406.

### **Water Production Capacity**

Arizona Water at Casa Grande has fourteen wells with a total production capacity of 12,770 gallons-per-minute ("GPM") and 14.2 million gallons of storage capacity. The system has approximately 14,315 service connections.

Using a simple analysis of overall well production and storage for the Casa Grande system, the existing water system can accommodate over 900 additional connections.

### **Arsenic**

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10  $\mu\text{g/l}$ . The date for compliance with the new MCL is January 23rd, 2006. The most recent lab analysis by the Company indicated that wells in the Casa Grande system exceed the new arsenic MCL.

Arizona Water is in the process of developing a treatment plan to comply with the new arsenic standard. In Decision No. 66400, dated October 14, 2003, the Commission approved a cost recovery method which will allow the Company to recoup its arsenic treatment costs in the Company's Northern Group. The Company is expected to use this same cost recovery method for the Casa Grande System.

### **Arizona Department of Environmental Quality Compliance**

Arizona Department of Environmental Quality ("ADEQ") regulates the Casa Grande system under ADEQ Public Water System ("PWS") I.D. # 11-009. Based on data submitted by the Company, ADEQ has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The developer has not completed the final design of the proposed distribution system and therefore has not obtained the Certificate of Approval to Construct from the ADEQ. Staff recommends that the Commission require Arizona Water to provide a copy of the ADEQ Certificate of Approval to Construct within 365 days of any decision in this matter.

### **Arizona Department of Water Resources Compliance**

Arizona Water is within the Arizona Department of Water Resources ("ADWR") Pinal Active Management Area, and is in compliance with ADWR's reporting and conservation rules.

Staff recommends that Arizona Water be required to file with the Commission a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within 365 days of any decision in this matter.

### **Curtailment Plan Tariff**

In a recent extension proceeding for the Company's Apache Junction system and its rendered Decision No. 66235, September 16, 2003, the Company was ordered to file a curtailment tariff. The Company filed this curtailment tariff on December 15, 2003 which will be applied to all of the Company's systems. The Company's proposed tariff is currently being reviewed by Staff.

### **ACC Compliance**

A check with the Utilities Division Compliance Section showed no outstanding compliance issues for the Company.

### **Proposed Rates**

Arizona Water has proposed to extend service to the property at its tariffed rates.

### **County Franchise**

Arizona Water has been authorized the necessary City of Casa Grande franchise which includes the proposed extension area. However, on January 27, 2003, the Company was informed by the City of Casa Grande that the franchise agreement had expired. The City further informed the Company that Arizona Water is allowed to operate within the City's rights-of-way, subject to a city inspection fee equal to 3 percent of the construction cost of the plant inspected.

### **Recommendations**

Staff recommends that the Commission approve the Arizona Water Company application for an extension of its Certificate of Convenience and Necessity in a portion of Pinal County to provide water service, subject to compliance with the following conditions:

1. To require the Arizona Water Company to charge its existing rates and charges in the proposed extension area.

2. To require Arizona Water Company to file a copy of the developers' Certificate of Assured Water Supply related to the proposed extension area within 365 days of the effective date of any decision in this matter.
3. To require Arizona Water Company to file the main extension agreement associated with the proposed extension area within 365 days of the effective date of any decision in this matter.
4. To require Arizona Water provide a copy of the Arizona Department of Environmental Quality's Certificate of Approval to Construct within 365 days of any decision in the matter.

Staff further recommends that the Commission's Decision granting this Extension of its Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet condition numbers 2, 3, and 4 above within the time specified.

# MEMORANDUM

TO: Jim Fisher  
Executive Consultant II  
Utilities Division

FROM: Barb Wells   
Information Technology Specialist  
Utilities Division

THRU: Del Smith   
Engineering Supervisor  
Utilities Division

DATE: January 9, 2003

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-02-0909)**

The areas requested by Arizona Water for an extension has been plotted with no complications.

Attached is a copy of the map for your files.

:bsw

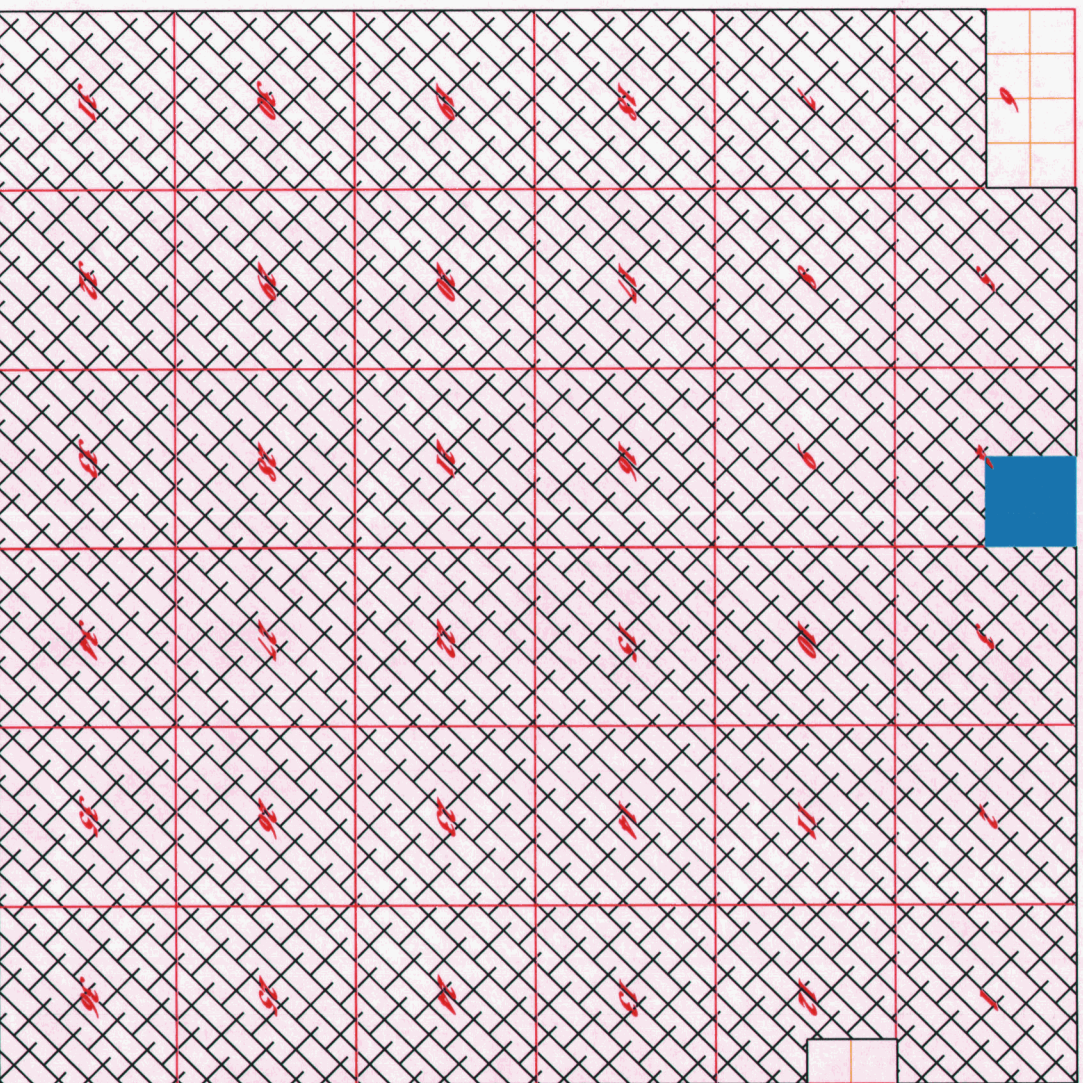
Attachment

cc: Docket Control  
Mr. Robert Geake  
File



# COUNTY: Pinal

RANGE 6 East



W-1445 (30)(9)

Arizona Water Company (Casa Grande)



Arizona Water Company  
Docket No. W-1445-02-909  
Application for Extension


## **EXHIBIT #1**

The Northeast quarter of Section 04, Township 6 South, Range 6 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

## MEMORANDUM

DATE: January 13, 2004

TO: James E. Fisher  
Executive Consultant II

FROM: Marlin Scott, Jr.   
Utilities Engineer

RE: Arizona Water Company  
Docket No. W-01445A-02-0909 (CC&N Extension)

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### **Introduction**

Arizona Water Company ("Company") has applied to extend its Certificate of Convenience and Necessity ("CC&N") for its Casa Grande system. The requested service area will add 1/4 square-mile to its existing 113 square-miles of certificated area. The Company serves the City of Casa Grande in Pinal County.

### **Capacity**

#### Existing Utility Plant

According to the submitted Water Use Data Sheet, the Company has 14 wells producing 12,770 gallons per minute ("GPM"), 14.202 million gallons of storage capacity, and a distribution system serving 14,315 service connections. The Company has predicted an additional 508 connections for the proposed CC&N extension, for a projected total customer base of 14,823. Staff concludes that the existing system has adequate source and storage capacity to serve the requested area.

#### Proposed Plant Facilities

The Company is proposing to extend its distribution system into the requested area to serve the Arroyo Vista Subdivision by installing 28,200 feet of 8-inch and 6-inch ductile iron pipe, related fittings, 508 service connections, and 34 fire hydrants, at a total cost of \$694,908. A detailed breakdown cost of this project is shown on the Company's Attachment "A" which is attached to this memorandum.

The project will be financed by a main extension agreement ("MXA") which the Company will be filing for Staff review and approval.



## **Arizona Department of Environmental Quality (ADEQ) Compliance**

### Compliance Status

ADEQ regulates the water system under ADEQ Public Water System I.D. #11-009. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

### Certificate of Approval to Construct

The developer's consulting engineer has not completed the final design of the distribution system. When the final plans are completed and approved by the Company, the plans will be submitted by the developer's engineer to ADEQ for review and approval of the Certificate of Approval to Construct. Staff recommends that the Company submit a copy of this ADEQ Certificate when received by the Company.

### Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL is January 23, 2006.

The Company indicated its arsenic levels for its wells range from 7 ppb to 45 ppb. Based on these levels, the Company is in the process of developing a treatment plan to comply with the new arsenic standard. In Decision No. 66400 (October 14, 2003), the Commission approved a cost recovery method which will allow the Company to recoup its arsenic treatment costs in the Company's Northern Group. The Company is expected to use this same cost recovery method for the Case Grande system.

## **Arizona Department of Water Resources (ADWR) Compliance**

The Company is located within the Pinal Active Management Area and is in compliance with its reporting and conservation requirements.

Staff recommends that the Company file with the Commission a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.

## **Arizona Corporation Commission (ACC) Compliance**

A check with the Utilities Division Compliance Unit showed no outstanding compliance issues.



### **Curtailment Plan Tariff**

A Curtailment Plan Tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. In a recent CC&N extension proceeding for the Company's Apache Junction system and its rendered Decision No. 66235 (September 16, 2003), the Company was ordered to file a curtailment tariff. The Company filed this curtailment tariff on December 15, 2003 which will be applied to all of the Company's systems. The Company's proposed tariff is currently being reviewed by Staff.

### **Summary**

#### Conclusions

- A. Staff concludes that the Company's existing system has adequate source and storage capacity to serve the requested area.
- B. ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- C. The Company is in the process of developing a treatment plan to comply with the new arsenic standard and will use the same cost recovery method that was approved for the Company's Northern Group.
- D. The Company is within the Pinal AMA and is in compliance with its reporting and conservation requirements.
- E. A check with the Utilities Division Compliance Unit showed no outstanding compliance issues.
- F. The Company filed a curtailment tariff for all its systems on December 15, 2003, which is currently being reviewed by Staff.

#### Recommendations

- 1. Once the MXA is completed, Staff recommends that the MXA be submitted to Staff for review and approval.
- 2. Staff recommends that the Company submit a copy of the ADEQ Certificate of Approval to Construct for the requested area when received by the Company.
- 3. Staff recommends that the Company file with the Commission a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.

NOTE: THIS COST ESTIMATE IS GOOD UNTIL: June 1, 2003  AFTER WHICH TIME IT IS SUBJECT TO REVISION UNLESS THE ATTACHED AGREEMENT HAS BEEN EXECUTED.	<h2 style="margin: 0;">ARIZONA WATER COMPANY</h2> <h3 style="margin: 0;">COST ESTIMATE</h3>	DATE PREPARED: 2/20/2003 Attachment "A"
	PREPARED BY: <div style="text-align: center; font-weight: bold;">MIKE LOGGINS</div>	SYSTEM: <div style="text-align: center; font-weight: bold;">CASA GRANDE</div>
	PROJECT LOCATION: <div style="text-align: center; font-weight: bold;">NE 1/4 SECTION 4 - T.6S., R.6E.</div>	DRAWING NO.

PROJECT DESCRIPTION:  
  
 Install water distribution system to serve Arroyo Vista Subdivision.

MATERIALS & LABOR			ESTIMATED PROJECT COST	
ACCOUNT	QUANTITY	DESCRIPTION	REFUNDABLE ADVANCE	NON-REFUNDABLE CONTRIBUTION
343	8,300 l.f.	Install 8" DIP and related fittings	\$ 153,550	
343	19,900 l.f.	Install 6" DIP and related fittings	308,450	
345	508 ea.	Install 3/4" service connection	101,600	
⇒ 346	<del>50</del> <sup>508</sup> ea.	5/8" x 3/4" meter	21,168	
348	34 ea.	Install 6" fire hydrant complete		64,600
⇒ 343	Lot	Testing, Fees & Inspection	8,150	1,350
<b>SUBTOTAL - MATERIALS &amp; LABOR</b>			<b>\$ 592,918</b>	<b>\$ 65,950</b>
⇒ OVERHEAD			32,433	3,607
<b>TOTAL REFUNDABLE AND NON-REFUNDABLE ESTIMATED PROJECT COST</b>			<b>\$ 625,351</b>	<b>\$ 69,557</b>
<b>TOTAL ESTIMATED PROJECT COST</b>			<b>\$694,908</b>	

Funds to be advanced prior to execution of Agreement for Extension of Water Facilities.  
 ⇒ Total funds required \$66,708

TMW